

***Lynchburg Industrial Development Authority  
Review of Cash Controls***

***September 23, 2004***



***Prepared by the Department of Internal Audit  
City of Lynchburg***

### ***Introduction***

Lynchburg's Industrial Development Authority (LIDA), a political subdivision of the Commonwealth of Virginia, was created by ordinance of the Council in March of 1967. It is governed by a board of seven directors appointed by City Council and has the authority to acquire, own, lease and dispose of properties to promote industry and develop trade by bringing business organizations to the area.

LIDA is also authorized to issue revenue bonds for the purpose of obtaining and constructing facilities. Issuance of the bonds does not create a liability for the Commonwealth of Virginia or the City of Lynchburg, but may be retained by LIDA or assumed by the companies for whom the facilities are obtained. The bonds are payable solely from revenues generated from the leasing of the facilities.

Three of the directors are elected by the board to serve as Chairman, Vice Chairman and Secretary-Treasurer, and the City's Office of Economic Development serves as staff to the Board members. LIDA also employs an accountant and an attorney on a part-time basis.

A Senior Accountant and Certified Public Accountant with the accounting firm of Cherry, Bekaert & Holland, L.L.P. maintains the accounting records for LIDA using "Quick Books" software. LIDA is required by law to have a financial audit performed annually. The resulting audit reports are sent to the State Auditor of Public Accounts and to City management. The FY2003 audit was performed by M. Jerry Reynolds, P.C.

This audit of the Industrial Development Authority's Cash Controls was performed at the request of the City Manager.

### ***Review Objectives***

The purpose of the review was to determine that:

- Controls are in place to reduce the risk of loss or misappropriation of cash and other assets;
- Cash receipts and disbursements are accurately accounted for;
- Cash receipts and disbursements are accurately supported; and
- Deposits are made in a timely manner.

### ***Scope of Work***

The audit covered operations for the period of July 1, 2003 through June 30, 2004. A 25% sample of deposits (16) recorded on the Balance Sheet Detail report were traced to the deposit receipts in file to determine whether transactions were recorded accurately

and cash was deposited timely. Deposits for the period were totaled by month and compared to the corresponding bank statements to determine that all transactions were accounted for. A 25 % sample of expenditures (41) recorded for the period was traced to supporting invoices and other documentation. Monthly checks recorded on the Balance Sheet Detail report were totaled and compared to bank statements to determine that all expenses were accounted for, and 7 (25%) general journal entries were traced to support documentation to determine accuracy of the entries. Additionally, an internal control review of the operations was performed.

The audit was conducted in accordance with professional internal auditing and generally accepted governmental auditing standards specified in the City's Internal Audit Charter and, accordingly, included such tests of records and other audit procedures as were considered necessary in the circumstances.

The Internal Audit Department is free from organizational impairments to independence in our reporting as defined by government auditing standards. We report directly to an audit committee and administratively to the city manager and are organizationally outside the staff or line management function of the areas we audit.

### ***Opinion On Internal Controls***

The objectives of a system of internal control are to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management authorization and are properly recorded. It is management's responsibility to establish and maintain an effective system of internal control.

LIDA's system of internal control over cash provides reasonable assurance that funds are adequately safeguarded against loss from unauthorized use or disposition and transactions are properly executed and recorded.

### ***Audit Conclusions***

Based on the results of this review, I conclude that...

- Controls are in place to reduce the risk of loss or misappropriation of cash and other assets;
- Cash receipts and disbursements are accurately accounted for;
- Cash receipts and disbursements are accurately supported; and
- Deposits are made in a timely manner except as noted below.

### *Observation*

Four of the sixteen checks tested were not deposited until seven to seventeen days after the dates on the checks; and another check was not deposited for five days after it was received.

Untimely deposits increase the risk of loss or misplacement of the receipts. In addition, interest earnings are lost for the time the receipts are held.

During the period of this review, the Secretary-Treasurer traveled quite frequently and was therefore unable to deposit all receipts when they were received. LIDA may want to consider establishing a back up for the Secretary-Treasurer to ensure that timely deposits are made.

### **Other Comments**

I appreciate the cooperation and assistance received from the staff at Cherry, Bekaert & Holland, L.L.P. during this review. I am available to discuss this report should there be questions or concerns.

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Carol J. Bibb, Director of Internal Audit

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